

ECONOMIC STIMULUS UPDATE – REPUBLICAN PROPOSALS DO NOT MEASURE UP

During a week when the panel that officially determines whether the economy is in a recession gave the first indication that a recession began in March and intensified after September 11, Senate Republicans blocked the consideration of a Democratic economic stimulus and recovery package. While Senate Republicans were engaged in their political maneuvering, Vice President Cheney was lobbying industry representatives for the President's package of business tax cuts and minimal assistance for unemployed workers.

Evidence is mounting that some additional fiscal stimulus is needed to get the economy moving again. At the same time, more economists are rejecting the approach taken by Congressional Republicans and the President because it would have little immediate impact on the economy, even though it has a substantial cost.

Recession Began in March

The *New York Times* reports that the six economists who are on the Business Cycle Dating Committee of the National Bureau of Economic Research may soon declare that a recession began last March. This Committee analyzes the economic data on an on-going basis to determine the beginning and end of recessions. They use four indicators: payroll employment, industrial production, inflation-adjusted personal income and wholesale and retail sales. All of these indicators except personal income have tracked their behavior in previous recessions ever since last March.

The shock to economic activity in the aftermath of September 11 has exacerbated the already weak economic situation. Dr. Robert Gordon, a member of the Committee, notes in the report: "...I do not think that we would be talking so soon about dating the start of a recession if it had not been for the extra downward push to the economy from September 11."

This confirms what most people have known for the last two months: the economy needs help to get on the road to recovery.

Republican Tax Cut Package Provides Little Economic Stimulus

The package of tax cuts for corporations and high-income individuals that the President and Congressional Republicans are trying to sell as a stimulus for the economy will provide little immediate boost to the economy and virtually no help to people who have lost their jobs, or will lose them over the next several months.

This point was reinforced this week in an open letter from nine Nobel Prize winning economist joined by four past Chairs of the President's Council of Economic Advisers. They say:

...the stimulus package passed by the House of Representatives will do little to assist a near term recovery and is likely to undermine growth in the long term. (the full text of the letter is included in the Weekender)

This is due to the fact that the \$100 billion in tax cuts will go primarily to upper-income individuals and corporations – and not for six to twelve months. There is little for the group of people who will spend the most the most rapidly: lower-income workers who have lost their jobs.

Even the study cited by the Vice President in his remarks to the Chamber of Commerce on November 14th shows how ineffective the Republican tax cut package is in stimulating a recovery. It is surprising that the Republicans would claim to be stimulating the economy with a proposal that, at a cost of \$100 billion:

- reduces the unemployment rate by only 0.1 percent
 - creates about 175,000 to 211,000 jobs out of a total of 133.5 million at a cost of \$575,000 per job
 - increases investment by only \$6 billion
 - increases real GDP by only \$14 billion out of a \$10.3 trillion economy
- (Source: William Beach, D. Mark Wilson, Rea S. Hederman and Ralph A. Rector "How the Economic Stimulus Proposals of the Administration, the House, and the Senate Would Affect the Economy" Heritage Foundation Center for Data Analysis report CDA01-08, November 5, 2001)

A better way to help the economy would put the money into expansion and extension of unemployment insurance benefits and provide federal funds to maintain health care coverage for unemployed workers.

For example, for the \$46 billion that the House Republican bill gives to corporations in the form of Alternative Minimum Tax rebates (\$25 billion) and subpart F incentive to keep profits earned overseas from being returned to the U.S. (\$21 billion), adequate unemployment insurance and health care coverage could be provided to workers who are now unemployed or who lose their jobs during 2002.

Both of these measures plus the tax rebates to lower income workers who did not receive the first round of rebates last summer would meet the criteria set out by the eminent economists: they would be targeted to increase spending immediately. Rather than give money to corporations which will invest and create jobs with a substantial lag, giving money to people who would get unemployment insurance and not have to worry about paying for their family's health care coverage would result in an immediate increase in spending. That would help save jobs and create new ones faster than the Republican corporate tax breaks.